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SUBJECT: FARMER SUICIDES PROMPT PM SINGH TO ANNOUNCE AGRICULTURAL
RELIEF PACKAGE

Summary

11. (U) Over 1,600 farmers in eastern Maharashtra's drought-affected cotton belt in the Vidarbha region have committed suicide in the past five years. The GOI has cited crop failure, depressed cotton prices and spiraling debt as the chief reasons for the suicides. During his June 30-July 1 visit to the region, PM Singh announced an \$830 million relief package for the farmers. It includes debt rescheduling, interest payment waivers, cash disbursements, funds for improved irrigation and water harvesting techniques and measures to diversify income sources for cotton farmers. Despite repeated demands from the farmers, the PM did not announce measures to prop up the low cotton prices that he himself acknowledged as a main cause of rural indebtedness. The opposition BJP focused on the price support issue in its criticism of Singh's package, saying that the Congress-led government's reduction of tariffs on imported cotton was a main cause of the farmers' plight. Congress, which came to power largely because of the rural vote, has been tardy in addressing this issue. Political compunctions will now force it to spend lavishly on relief measures that still may not convince skeptical farmers that it cares. End Summary.

Cotton Producing Vidarbha Region Plagued by Farmer Suicides

12. (U) Over 1,600 farmers in the Vidarbha region of eastern Maharashtra have committed suicide over the past five years, with more than 600 taking their lives in this past year alone. Most were cotton farmers who faced serious crop failures and mounting personal debt and the loss of their land, which they had presented to banks as collateral. The state of Maharashtra accounts for 20 percent of India's cotton production. Most of the area is under dry land farming and chiefly dependent on rainfall for irrigation. Crop failure due to insufficient, or poorly timed, rainfall and depressed cotton prices has left many farmers unable to repay loans.

PM Intervenes and Announces Debt Relief Package

13. (U) On July 1, during his two-day visit to the affected areas, PM Manmohan Singh announced a package of incentives for farmers in the six-worst drought-hit districts of the Vidarbha region - Amravati, Akola, Washim, Buldhana, Yavatmal, and Wardha. The relief package, worth roughly \$830 million, is a grant and will come from the Prime Minister's National Relief Fund. The Prime Minister will head a yet to be formed special

group to implement it.

Immediate Relief Measures

¶4. (U) The government will allocate around \$100,000 to district collectors in the six districts to be "used judiciously" for immediate assistance to families affected by suicides and debt. In addition, farmers will receive a waiver of overdue interest on loans taken out before June 30. The financing, about \$158 million, will be born equally by the federal and state governments. Singh said the debt relief will free up farmers to take out badly needed fresh loans.

Longer Term Measures

¶5. (U) The GOI intends to implement cash allocations and interest rate relief on short notice. Other, longer-term measures announced by Singh include:

-- The rescheduling of delinquent loans currently worth about \$290 million. Farmers will now have three to five years to pay back their loans, and will not have to service them for one year. The farmers' interest burden on these rescheduled loans will not change. They will only pay the interest accrued on the original loan for the repayment period.

-- The National Bank for Agricultural and Rural Development (NABARD) will dispense additional agricultural credits of around \$283 million in the six districts during the current Indian fiscal year, which ends in March of 2007.

-- Farmers will receive new cotton seeds worth about \$40 million.

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-- The GOI will allocate about \$53 million for water harvesting projects.

-- The government will create additional income sources for farmers through a \$30 million program aimed at establishing cattle breeding facilities and fisheries.

-- A \$50 million National Horticulture Mission will help distressed orange cultivators.

-- The government will allocate around \$484 million in the next three years to complete irrigation projects in the six districts.

-- The government will create an expert group to study the problem of rural indebtedness, which will submit its findings and recommendations within six months.

Singh said similar relief measures will also be implemented in 25 other debt-affected districts in India - 16 in Andhra Pradesh, six in Karnataka, and three in Kerala.

Not Surprisingly, Opposition Criticizes Singh's Initiative

¶6. (U) Low cotton prices are the main reason for the debt problems that have plagued small farmers in eastern Maharashtra. The average farm is too small and too unproductive to weather a significant downward shift in cotton prices. Not surprisingly, the BJP opposition was quick to point out that the package announced by Singh failed to address the price issue. Several party spokesmen called on the GOI to increase its minimum support prices for cotton, saying the relief package took "no concrete steps envisioned for a holistic and long-drawn solution." Party spokesmen laid the blame for the suicides on the GOI's reduction of import duties on cotton, which critics claim has suppressed domestic prices. (Comment: The current government has actually increased the tariff for cotton from ten

to 14.67 percent by introducing the education cess and the special additional duty. End Comment) Others expressed skepticism that the money would actually reach the affected farmers. BJP critics also focused on the Congress-led Government of Maharashtra's decision to withdraw so-called advance bonuses to farmers.

The Economics and Results of Poor Policy

¶7. (U) Cotton prices are lower because the Maharashtra state government has withdrawn its cotton monopoly procurement program and poor cotton yields related to adverse weather have negatively affected cotton farmers' net returns. In the late 1970s, Maharashtra implemented a cotton procurement scheme which gave a state government agency a monopoly to procure cotton from the farmers at a pre-determined price. The state's monopoly prices were well above (30-40 percent) the minimum support price (MSP) announced by the central government, and generally higher than market prices in other states. The higher monopoly prices led farmers to increase their cotton cultivation in the state.

¶8. (U) However, the program was a big drain on the state's fiscal budget, due to the higher cost of cotton procurement and other inefficiencies absorbed by the state such as the storage, processing and marketing of cotton. Despite various review committees' recommendations to end it, the Government of Maharashtra maintained the program because of political compulsions. Three years ago, the state government decided to phase out the program and allow procurement by private traders. For the first two years it froze the monopoly procurement prices, i.e., not allowing annual increases. For the third year (2005/06 crop year), it eliminated the price support completely, and procured cotton only at the lower MSP set by the Center. Consequently, farmers received lower prices for their cotton during the 2005/06 season.

¶9. (U) Because of the state's procurement program, cotton emerged as the main cash crop in the Vidarbha region, displacing many traditional crops like coarse cereals. However, cotton farming requires higher cash expenditures for inputs such as seed, pesticides and water compared to other crops. This compelled most farmers to borrow money from moneylenders to buy these inputs. Many Indian farmers live on the margin and are therefore only able to offer their land as collateral to obtain loans. Unfortunately, adverse weather conditions in the

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Vidarbha region during the last two seasons resulted in cotton crop failures and poor yields. This, combined with lower prices, resulted in sharply reduced net returns to farmers for their cotton crop during the 2005/06 season, leading to increased indebtedness and suicides.

Comment:

¶10. (SBU) Although urbanization is reducing the numbers of Indians living off of the land, sixty five percent of Indians still live in villages and most Indians have family members in the countryside. This means that farmer suicides hit a sensitive nerve in Indian society, with politicians, media commentators and NGOs from across the political and ideological spectrum quick to provide their own explanations for the deaths. Critics of globalization and liberalization, in particular, like to cite farmer suicides as an example of the pitfalls of a market-based modernization strategy. In reality, the rural indebtedness and general hopelessness that leads to the deaths in the poor rural regions of eastern Maharashtra are not new phenomena. Indian policy has suffered from a strong urban bias resulting in decades of systematic neglect by the central and state governments which has denied most farmers the opportunity to modernize and escape the vicious cycle of nearly subsistence agriculture. Successive Maharashtra governments deserve particular criticism for ignoring the needs of the state's poorest farmers. One cannot claim that the state ignores

agriculture, since it does have a track record of inefficient and distorting support schemes for farmers, such as power and water subsidies. However, much of the state's attention goes to the wealthier sugar and wine industries that have the cash flows and financial resources to support the patronage and pork barrel politics so characteristic of Maharashtra state politics.

¶11. (SBU) Most political observers credited the UPA's 2004 electoral victory to rural frustration with the NDA government's concentration on the urban middle class. Despite this, the UPA has taken over two years to focus on the plight of the Vidarbha farmers and has now had to scramble to put together a very expensive relief package. To his credit, PM Singh did not mention any plans to raise import tariffs on cotton during his Vidarbha visit, although it would have silenced the opposition and provided tangible political benefits. Reversing such an important liberalization measure as the systematic lowering of India's import tariffs would have sent all the wrong signals about the GOI's commitment to reform and diverted attention from the complex political, economic and social reasons for farmer suicides. End comment.

¶12. (U) Embassy New Delhi cleared this cable.
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